



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
SCOTT COUNTY
SHERIFF'S SETTLEMENT - 1998 TAXES**

July 22, 1999

**EDWARD B. HATCHETT, JR.
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Edward B. Hatchett, Jr. Auditor of Public Accounts

To the People of Kentucky

Honorable Paul E. Patton, Governor

John P. McCarty, Secretary

Finance and Administration Cabinet

Mike Haydon, Secretary, Revenue Cabinet

Honorable George Lusby, County Judge/Executive

Honorable Bobby Hammons, Scott County Sheriff

Members of the Scott County Fiscal Court

Independent Auditor's Report

We have audited the Scott County Sheriff's Settlement - 1998 Taxes as of July 22, 1999. This tax settlement is the responsibility of the Scott County Sheriff. Our responsibility is to express an opinion on the financial statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Sheriff prepares his financial statement on a prescribed basis of accounting that demonstrates compliance with the cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Scott County Sheriff's taxes charged, credited, and paid as of July 22, 1999, in conformity with the basis of accounting described in the preceding paragraph.

To the People of Kentucky
Honorable Paul E. Patton, Governor
John P. McCarty, Secretary
Finance and Administration Cabinet
Mike Haydon, Secretary, Revenue Cabinet
Honorable George Lusby, County Judge/Executive
Honorable Bobby Hammons, Scott County Sheriff
Members of the Scott County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following area of internal control.

- Lack Of Adequate Segregation Of Duties

In accordance with Government Auditing Standards, we have also issued a report dated October 25, 1999, on our consideration of the Sheriff's compliance with certain laws and regulations and internal control over financial reporting.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
October 25, 1999

SCOTT COUNTY
BOBBY HAMMONS, SHERIFF
SHERIFF'S SETTLEMENT - 1998 TAXES

July 22, 1999

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 943,838	\$ 1,352,436	\$ 4,336,876	\$ 1,890,724
Tangible Personal Property	116,429	125,161	372,571	353,702
Intangible Personal Property				351,084
Franchise Corporation	108,751	121,538	387,964	
Limestone, Sand, and Gravel Reserves	324	465	1,490	628
Additional Billings	7,126	8,982	27,905	30,738
Increased Through Erroneous Assessments				43
Penalties	7,494	10,440	33,285	16,637
Adjusted to Sheriff's Receipt	19	24	77	35
Gross Chargeable to Sheriff	<u>\$ 1,183,981</u>	<u>\$ 1,619,046</u>	<u>\$ 5,160,168</u>	<u>\$ 2,643,591</u>
<u>Credits</u>				
Discounts	\$ 16,539	\$ 23,024	\$ 73,344	\$ 38,031
Exonerations	16,847	20,770	64,276	26,660
Delinquents:				
Real Estate	12,919	18,511	59,360	25,019
Tangible Personal Property	190	204	607	629
Intangible Personal Property				1,291
Uncollected Franchise	22,056	28,606	90,115	
Total Credits	<u>\$ 68,551</u>	<u>\$ 91,115</u>	<u>\$ 287,702</u>	<u>\$ 91,630</u>
Net Tax Yield	\$ 1,115,430	\$ 1,527,931	\$ 4,872,466	\$ 2,551,961
Less: Commissions *	47,693	64,937	136,429	108,746
Net Taxes Due	\$ 1,067,737	\$ 1,462,994	\$ 4,736,037	\$ 2,443,215
Taxes Paid	1,065,527	1,453,665	4,717,471	2,436,753
Credit For Commissions Per KRS 134.290				
Refunds (Current and Prior Year)	1,979	2,431	8,832	3,727
Due Districts or (Refund Due Sheriff)		**		
as of Completion of Fieldwork	<u>\$ 231</u>	<u>\$ 6,898</u>	<u>\$ 9,734</u>	<u>\$ 2,735</u>

* and ** See Page 4

SCOTT COUNTY
BOBBY HAMMONS, SHERIFF
SHERIFF'S SETTLEMENT - 1998 TAXES
July 22, 1999
(Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	5,185,322
2.8% on	\$	4,872,466

** Special Taxing Districts:

Library District	\$	4,847
Health District		1,704
Extension District		<u>347</u>

Due Districts	\$	<u><u>6,898</u></u>
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SCOTT COUNTY
NOTES TO FINANCIAL STATEMENT

July 22, 1999

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintains deposits with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to law, the depository institution should pledge sufficient securities as collateral which, together with FDIC insurance, equals or exceeds the amount on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge of securities should be evidenced by an agreement that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. This agreement, signed by both parties, must be sufficient to create an enforceable and perfected security interest in the collateral under Kentucky law. The Sheriff met the requirements stated above, and as of July 22, 1999, deposits were fully insured or collateralized at a 100% level with securities held by the county official's agent in the county official's name.

SCOTT COUNTY
NOTES TO FINANCIAL STATEMENT
July 22, 1999
(Continued)

Note 3. Property Taxes

The real and personal property tax assessments were levied as of January 1, 1998. Property taxes were billed to finance governmental services for the year ended June 30, 1998. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 28, 1998, through April 30, 1999.

Note 5. Interest Income

The Scott County Sheriff earned \$55,971 as interest income on 1998 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office.

Note 6. Unrefundable Duplicate Payments And Unexplained Receipts Should Be Escrowed

The Sheriff should deposit any unrefundable duplicate payments and unexplained receipts in an interest-bearing account. According to KRS 393.110, the Sheriff should properly report annually to the Treasury Department any unclaimed moneys. After seven years, if the funds have not been claimed, the funds should be submitted to the Kentucky State Treasurer. For the 1997 taxes, the Sheriff had \$3,536 in unrefundable duplicate payments and unexplained receipts. Therefore, the Sheriff should send a written report to the Treasury Department.

COMMENT AND RECOMMENDATION

SCOTT COUNTY
BOBBY HAMMONS, SHERIFF
COMMENT AND RECOMMENDATION

July 22, 1999

INTERNAL CONTROL:

Lack Of Adequate Segregation of Duties

We recognize the extent of segregation of duties is a judgment established by management. We also recognize this judgment is affected by certain circumstances beyond the elected official's control, such as functions prescribed by statutes and regulations and by budgetary constraints. Due to limited staff, a proper segregation of duties may be impossible. However, the lack of adequate segregation of duties is hereby noted as a reportable condition pursuant to professional auditing standards. We believe this reportable condition as described above is a material weakness.

Management's Response: We will have someone else help.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Honorable George Lusby, County Judge/Executive
Honorable Bobby Hammons, Scott County Sheriff
Members of the Scott County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Scott County Sheriff's Settlement – 1998 Taxes as of July 22, 1999, and have issued our report thereon dated October 25, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Scott County Sheriff's Settlement – 1998 Taxes as of July 22, 1999 is free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Scott County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comment and recommendation.

Honorable George Lusby, County Judge/Executive
Honorable Bobby Hammons, Scott County Sheriff
Members of the Scott County Fiscal Court
Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, the reportable condition described above, we consider to be a material weakness.

- Lack Of Adequate Segregation Of Duties

This report is intended for the information of management. However, this report, upon release by the Auditor of Public Accounts, is a matter of public record and its distribution is not limited.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
October 25, 1999

